

**REPORT OF THE AUDIT OF THE
PERRY COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

July 29, 2005



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CRIT LUALLEN
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To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Denny Noble, Perry County Judge/Executive
Honorable Dennis Pat Wooton, Perry County Sheriff
Members of the Perry County Fiscal Court

The enclosed report prepared by Morgan-Franklin, LLC, Certified Public Accountants, presents the Perry County Sheriff's Settlement - 2004 Taxes as of July 29, 2005.

We engaged Morgan-Franklin, LLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Morgan-Franklin, LLC evaluated the Perry County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
PERRY COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES

July 29, 2005

Morgan-Franklin, LLC has completed the audit of the Sheriff's Settlement - 2004 Taxes for Dennis Pat Wooton, Perry County Sheriff, as of July 29, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$8,996,599 for the districts for 2004 taxes, retaining commissions of \$311,911 to operate the Sheriff's office. The Sheriff distributed taxes of \$8,675,771 to the districts for 2004 Taxes. Taxes of \$5,337 are due to the districts from the Sheriff and refunds of \$535 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Eliminate The Deficit Of \$1,855 In The Tax Account

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
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Independent Auditors' Report

We have audited the Perry County Sheriff's Settlement – 2004 Taxes as of July 29, 2005. This tax settlement is the responsibility of the Perry County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Perry County Sheriff's taxes charged, credited, and paid as of July 29, 2005, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
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Honorable Dennis Pat Wooton, Perry County Sheriff
Members of the Perry County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated December 27, 2005, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Eliminate The Deficit Of \$1,855 In The Tax Account

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

Audit fieldwork completed -
December 27, 2005

PERRY COUNTY
DENNIS PAT WOOTON, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES

July 29, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 663,867	\$ 852,645	\$ 2,425,116	\$ 763,517
Tangible Personal Property	208,418	388,107	804,745	695,470
Intangible Personal Property				137,045
Fire Protection	4,476			
Increases Through Exonerations	39	75	149	183
Franchise Corporation	94,129	162,782	359,642	
Additional Billings	708	906	2,550	813
Unmined Coal - 2004 Taxes	180,942	232,655	652,820	207,924
Oil and Gas Property Taxes	90,111	115,405	324,874	103,549
Penalties	9,685	13,330	35,510	15,239
Adjusted to Sheriff's Receipt	1,153	1,659	5	1,426
Gross Chargeable to Sheriff	<u>\$ 1,253,528</u>	<u>\$ 1,767,564</u>	<u>\$ 4,605,411</u>	<u>\$ 1,925,166</u>
<u>Credits</u>				
Exonerations	\$ 9,567	\$ 12,254	\$ 34,642	\$ 11,716
Discounts	16,501	22,842	60,458	28,209
Delinquents:				
Real Estate	46,940	60,062	169,250	53,505
Tangible Personal Property	2,906	5,454	11,013	8,178
Intangible Personal Property				1,573
Total Credits	<u>\$ 75,914</u>	<u>\$ 100,612</u>	<u>\$ 275,363</u>	<u>\$ 103,181</u>
Taxes Collected	\$ 1,177,614	\$ 1,666,952	\$ 4,330,048	\$ 1,821,985
Less: Commissions (a)	<u>50,336</u>	<u>70,845</u>	<u>113,008</u>	<u>77,722</u>
Taxes Due	\$ 1,127,278	\$ 1,596,107	\$ 4,217,040	\$ 1,744,263
Taxes Paid	1,123,456	1,594,915	4,213,809	1,743,591
Refunds (Current and Prior Year)	<u>585</u>	<u>712</u>	<u>2,145</u>	<u>673</u>
Due Districts or (Refund(s) Due Sheriff) as of Completion of Fieldwork	<u>\$ 3,237</u>	(b) <u>\$ 480</u>	(c) <u>\$ 1,086</u>	<u>\$ (1)</u>

(a), (b), and (c) See Next Page

The accompanying notes are an integral part of the financial statement.

PERRY COUNTY
DENNIS PAT WOOTON, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES
July 29, 2005
(Continued)

(a) Commissions:

10% on	\$	10,000
4.25% on	\$	4,656,551
2.75% on	\$	727,565
2.75% on	\$	3,602,483

(b) Special Taxing Districts:

Library District	\$	452
Health District		97
Soil Conservation District		(164)
Extension District		95
		<hr/>
Due Districts or (Refund Due Sheriff)	\$	<u>480</u>

(c) School Districts

Common School District	\$	1,456
Hazard Independent District		(370)
		<hr/>
Due Districts or (Refund Due Sheriff)	\$	<u>1,086</u>

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS

July 29, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of July 29, 2005, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENT
July 29, 2005
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 2, 2004 through July 29, 2005.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2004. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was March 28, 2005 through July 29, 2005.

Note 4. Interest Income

The Perry County Sheriff earned \$1,271 as interest income on 2004 taxes. As of July 29, 2005 the Sheriff owes \$78 in interest to the Common School District, \$18 to the Hazard Independent School District and \$220 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Perry County Sheriff collected \$56,333 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Perry County Sheriff collected \$2,115 of advertising costs and \$877 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

Note 7. Deficit Balance

Based on available records, there is a \$1,855 deficit in the Sheriff's official tax account. This deficit resulted from the non-payment of the forestry funds first month of collections. A Schedule of Excess of Liabilities Over Assets is included in this report as a supplemental schedule.

PERRY COUNTY
DENNIS PAT WOOTON, COUNTY SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

July 29, 2005

Assets

Cash in Bank (All Tax Accounts)	\$ 138,753	
Deposits in Transit	8,865	
Receivables:		
Deposit Error Correction	8,920	
Hazard Independent School	370	
Soil Conservation	164	
Fee Account For Overpayment Of Tax Commissions	3,174	
Total Assets	<u> </u>	\$ 160,246

Liabilities

Paid Obligations-		
Outstanding Checks	\$ 9,803	
Liabilities Paid To Tax Districts After Tax Sale Date	146,645	
Total Paid Obligations	<u> </u>	\$ 156,448
Unpaid Obligations-		
Other Taxing Districts-		
County	\$ 3,237	
Common School	1,456	
Library	452	
Health	97	
Extension Service	95	
Interest Due Common School	78	
Interest Due Hazard Independent School	18	
Interest Due Sheriff's Fee Account	220	
Total Unpaid Obligations	<u> </u>	5,653
Total Liabilities		<u>\$ 162,101</u>
Total Fund Deficit as of July 29, 2004		<u><u>\$ (1,855)</u></u>

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COMMENTS AND RECOMMENDATIONS

PERRY COUNTY
DENNIS PAT WOOTON, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of July 29, 2005

STATE LAWS AND REGULATIONS:

The Sheriff Should Eliminate The Deficit Of \$1,855 In The Tax Account

Based on available records, there is a \$1,855 deficit in the Sheriff's official tax account. The deficit appears to be caused by the non payment of the first month of the Forestry District's tax collections. A Schedule of Excess of Liabilities Over Assets is included in this report as a supplemental schedule. We recommend the Sheriff eliminate this deficit by depositing personal funds in this amount.

Sheriff's Response: Funds have been deposited.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. This could be documented by initialing the bank deposit, daily deposit, and receipts ledger.
- The Sheriff should compare the monthly tax reports to the receipts and disbursements ledgers for accuracy. Any differences should be reconciled. This could be documented by initialing the monthly tax reports.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any difference should be reconciled. This could be documented by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: I will initial the monthly tax reports.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

This has not been corrected and is repeated in this report.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable Denny Noble, Perry County Judge/Executive
Honorable Dennis Pat Wooton, Perry County Sheriff
Members of the Perry County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Perry County Sheriff's Settlement - 2004 Taxes as of July 29, 2005, and have issued our report thereon dated December 27, 2005. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Perry County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Perry County Sheriff's Settlement - 2004 Taxes as of July 29, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards which is described in the accompanying comments and recommendations.

- The Sheriff Should Eliminate The Deficit Of \$1,855 In The Tax Account

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

Audit fieldwork completed -
December 27, 2005

